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Office of the Attorney General



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Reply to:
Consumer Advocate and Protection Division
Post Office Box 20207
Nashville, TN 37202

March 2, 2004

Honorable Deborah Taylor Tate
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

**IN RE: TARIFF TO RECLASSIFY RATE GROUPING OF CERTAIN
BELLSOUTH EXCHANGES TARIFF NO. 2004-0055**

Docket 04-00015

Dear Chairman Tate:

Enclosed is an original and thirteen copies of the Consumer Advocate and Protection Division's Memorandum of Law in Support of Motion for Summary Judgment in regards to Docket No. 04-00015. Kindly file same in this docket. Copies are being sent to all parties of record. If you have any questions, kindly contact me at (615) 741-1671. Thank you.

Sincerely,

Joe Shirley
Assistant Attorney General

CC: All Parties of Record.

**IN THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

**TARIFF TO RECLASSIFY RATE
GROUPING OF CERTAIN BELL SOUTH
EXCHANGES - TARIFF NO. 2004-0055**

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DOCKET NO. 04-00015

**CONSUMER ADVOCATE AND PROTECTION DIVISION'S MEMORANDUM
OF LAW IN SUPPORT OF MOTION FOR SUMMARY JUDGMENT**

Comes now Paul G. Summers, Attorney General and Reporter for the State of Tennessee, through the Consumer Advocate and Protection Division of the Office of the Attorney General ("Consumer Advocate"), pursuant to Rule 56 of the Tennessee Rules of Civil Procedure, and hereby submits the *Consumer Advocate and Protection Division's Memorandum of Law in Support of Motion for Summary Judgment*.

I. INTRODUCTION

As will be demonstrated below, the above-captioned tariff to reclassify certain rate groups filed by BellSouth Telecommunications, Inc. ("BellSouth") should be denied and summary judgment entered because the regrouping proposal defined therein violates the "price cap" that BellSouth must operate under pursuant to Tenn. Code Ann. § 65-5-209. In direct contravention of this statute, BellSouth wants to charge and collect millions more from thousands of Tennesseans who purchase basic local telephone services. Failure to deny BellSouth's request in this case would open the door to future such rate increases, limited only by BellSouth's desire for additional revenues rather than the state law enacted to prohibit unauthorized hikes in basic telephone rates.

II. STANDARD FOR SUMMARY JUDGMENT

When evaluating a motion for summary judgment, the Tennessee Regulatory Authority (“TRA”) should consider “(1) whether a factual dispute exists; (2) whether the disputed fact is material to the outcome of the case; and (3) whether the disputed fact creates a genuine issue for trial.” *Byrd v. Hall*, 847 S.W.2d 208, 214 (Tenn. 1993). Summary judgment is rendered when there is no genuine issue as to any material fact and the moving party is entitled to a judgment as a matter of law. *See* Tenn. R. Civ. P. 56.04.

In order to be entitled to a judgment as a matter of law, the moving party must either affirmatively negate an essential element of the nonmoving party’s claim or establish an affirmative defense that conclusively defeats the nonmoving party’s claim. *See Byrd*, 847 S.W.2d at 215. As the proponent of Tariff No. 2004-0055, BellSouth bears the burden of showing that facts and law support its petition to reclassify 56 selected telephone exchanges from a lower-rated rate group to a more expensive, higher-rated rate group.

In discussing the burden upon the moving party, the United States Supreme Court held in *Celotex* as follows:

We do not think . . . the burden is on the party moving for summary judgment to produce evidence showing the absence of a genuine issue of material fact, even with respect to an issue on which the non-moving party bears the burden of proof. Instead . . . the burden on the moving party may be discharged by “showing” - that is, pointing out to the District Court - that there is an absence of evidence to support the non-moving party’s case.

Celotex v. Catrett, 477 U.S. 317, 325 (1986).

Celotex’s ruling was adopted by the Tennessee Court of Appeals in *Moman v. Waden*

Under Rule 56.03, upon motion, summary judgment shall be entered against a party who failed to make a showing sufficient to establish the existence of an essential element to that party's case and on which the party will bear the burden of proof at trial. If the non-moving party fails to establish the existence of any essential element, there can be no genuine issue as to any material fact since a complete failure of the proof concerning an essential element of the non-moving party's case necessarily renders all other facts immaterial.

Moman v. Waden, 719 S.W.2d 531, 533 (Tenn. Ct. App. 1986).

Additionally, *Celotex* clarifies issues as to the distribution of burdens of proof when a party has moved for summary judgment. Specifically, "where the nonmoving party will bear the burden of proof at trial on a dispositive issue, a summary judgment motion may properly be made in reliance solely on the 'pleadings, depositions, answers to interrogatories and admissions on file.'" *Celotex*, 477 U.S. at 324.

Once the moving party demonstrates that it has satisfied the requirements of Tenn. R. Civ. P. 56, the nonmoving party must demonstrate how these requirements have not been satisfied. *See Nelson v. Martin*, 958 S.W.2d 643, 647 (Tenn. 1997). If the party moving for summary judgment successfully negates a claimed basis for the action, the nonmoving party may not simply rest on the pleadings, but must offer proof to establish the existence of the essential elements of the claim. *See Staples v. CBL & Associates, Inc*, 15 S.W.3d 83, 89 (Tenn. 2000). Mere conclusory generalizations will not suffice. *See Davis v. Campbell*, 48 S.W.3d 741, 747 (Tenn. Ct. App. 2001).

III. STATEMENT OF UNDISPUTED MATERIAL FACTS

Served and filed separately herewith is the *Consumer Advocate and Protection Division's Statement of Undisputed Material Facts*, which is incorporated herein by reference as if fully set forth here.

IV. ARGUMENT

A. BELLSOUTH'S RECLASSIFICATION OF RATE GROUPS PRODUCES AN ADJUSTMENT OF RATES FOR BASIC LOCAL EXCHANGE TELEPHONE SERVICE AND, THEREFORE, IS SUBJECT TO THE PRICE REGULATION REQUIREMENTS SET FORTH IN TENN. CODE ANN. § 65-5-209.

BellSouth's own documents filed in support of its tariff to reclassify rate groups establish that the tariff "adjust[s] its rates for basic local exchange telephone services" which, under Tenn. Code Ann. § 65-5-209, is sufficient to bring the proposed tariff under price regulation requirements. Accordingly, the TRA should find that this tariff is subject to price regulation.

Tenn. Code Ann. § 65-5-209(e) (Supp. 2003) provides that "an incumbent local exchange telephone company may adjust its rates for basic local exchange telephone services . . . only so long as its aggregate revenues for basic local exchange telephone services . . . generated by such changes do not exceed the aggregate revenues generated by the maximum rates permitted by the price regulation plan." Also, Tenn. Code Ann. § 65-5-209(f) (Supp. 2003) further provides that "an incumbent local exchange telephone company is permitted to adjust annually its rates for basic local exchange telephone services . . . provided that in no event shall the rate for residential basic local exchange telephone service be increased in any one (1) year by more than the percentage change in inflation"

In support of its tariff filing in this docket, BellSouth sets forth a "Rate Group Tracking Report" which, along with its current and proposed tariffs, clearly establish that BellSouth's reclassification of rate groups "adjusts its rates for basic local exchange telephone services."¹ Thus,

¹ See BellSouth's January 23, 2004 Response to TRA Staff's January 16, 2004 Data Request, Docket No. 04-00015, Item No. 3, Attachment B ("Rate Group Tracking Report").

in the very first “local exchange” listed in the Tracking Report, BellSouth shows that the Athens exchange will be “adjusted” from “Tariff RG [Rate Group] 2” to “Prop[osed] RG [Rate Group] 3”:

RATE GROUP TRACKING REPORT TENNESSEE								MONTH YEAR	DECEMBER 2002	
EXCHANGE LOCAL CALLING AREA	TARIFF RG	PROP RG	RG LOWER LIMIT	LINES WITHIN EXCH	LOCAL LINES (BS1)	LOCAL LINES (CONN)	TOTAL LOCAL LINES	RG UPPER LIMIT	% OF UPPER LIMIT	NUMBER MONTHS OVER
ATHENS	2	3	12001	■■■■■	■■■■■	■■■■■	■■■■■	27000	■■■■■	■■■
* * *	***	***	***	***	***	***	***	***	***	***
WARTRACE	1	2	0	■■■■■	■■■■■	■■■■■	■■■■■	12000	■■■■■	■■■

See EXHIBIT 1, attached hereto (portions of this document have been redacted due to concerns about proprietary information).

As demonstrated by BellSouth’s current and proposed tariffs, such an “adjustment” will mean that the “rates for basic local exchange telephone services” for Athens will go from \$8.62 per month to \$9.19 per month for residential customers, and from \$30.80 per month to \$32.75 per month for business customers.

The BellSouth tariff that is currently in effect for the provisioning of basic local exchange service states:

BELLSOUTH TELECOMMUNICATIONS, INC TENNESSEE ISSUED January 7, 2004 BY: President - Tennessee Nashville, Tennessee	GENERAL SUBSCRIBER SERVICES TARIFF	Thirteenth Revised Page 19 Cancels Twelfth Revised Page 19
		EFFECTIVE February 6, 2004

A3 BASIC LOCAL EXCHANGE SERVICE

A3 7 MONTHLY EXCHANGE RATES

A3 7 1 Flat Rate Service

* * *

* * *

Athens

(a) R.G. 2

Residence

Business

USOC

8.62

30.80

NA (I)

See **EXHIBIT 2**, attached hereto.

BellSouth's proposed tariff to reclassify rate groups would cancel the current tariff. This proposed replacement tariff states:

BELLSOUTH
TELECOMMUNICATIONS, INC
TENNESSEE
ISSUED January 15, 2004
BY President - Tennessee
Nashville, Tennessee

GENERAL SUBSCRIBER SERVICES TARIFF

Fourteenth Revised Page 19
Cancels Thirteenth Revised Page 19

EFFECTIVE February 20, 2004

A3 BASIC LOCAL EXCHANGE SERVICE

A3 7 MONTHLY EXCHANGE RATES

A3 7 1 Flat Rate Service

* * *

* * *

Athens

(a) R.G. 3

Residence

Business

USOC

9.19

32.75

NA (C)

See **EXHIBIT 3**, attached hereto.

Thus, if BellSouth's proposed tariff is approved and allowed to become effective, BellSouth's customers located in the Athens exchange would pay more money to BellSouth in order to purchase "basic local exchange service." Likewise, BellSouth's customers located in the other 55 local exchanges that are included in BellSouth's regrouping proposal would pay more for "basic local exchange service."² Only in the minds of overly-creative lawyers could such a price increase on the bills of customers not be an "adjustment" or "increase" in basic telephone rates.

Furthermore, the fact that rates for "basic local exchange telephone service" are being "adjusted" or "increased" is proven by accounting and economic conventions. The revenue that BellSouth receives for the sale of basic local exchange telephone service is mathematically described

² See *Consumer Advocate and Protection Division's Statement of Undisputed Material Facts* at ¶¶ 1-2.

as follows: Revenue equals the price per unit of local exchange service sold multiplied times the quantity of units of local exchange service sold. Thus, revenue is expressed by the following accounting equation:

$$P \times Q = R$$

(where P is the price per unit sold, Q is the quantity of units sold, and R is the aggregate amount of revenue generated from sales).

The price increase for basic local exchange telephone service is readily seen in BellSouth's own calculations. In order to show the amount of annual revenue increase attributable to its regrouping plan, BellSouth submitted a 232-page schedule of "Present and Proposed Rates and Revenues" wherein it computed the annual revenue change for each of the 56 local exchanges that BellSouth proposes to reclassify.³ In this schedule, the "Present In-Service" quantity and the "Proposed In-Service" quantity remain the same. Thus, quantity (Q) is constant. The "Proposed Annual Revenue" is greater than the "Present Annual Revenue". Thus, revenue (R) is increasing. Accordingly, it must follow that the "New Zone Rate" for telephone service is greater than the "Old Zone Rate" for service. Therefore, the price (P) for telephone service must be increasing. This price increase is clearly demonstrated on the attached schedule for the Athens exchange, through comparison of the "new" rate column (6) and the "old" rate column (5) See **EXHIBIT 4**, attached hereto (portions of this document have been redacted due to concerns about proprietary

³ See BellSouth's January 23, 2004 Response to TRA Staff's January 16, 2004 Data Request, Docket No. 04-00015, Item Nos. 1 and 2, Attachment A (document labeled as "Attachment B").

information).⁴

In this case, BellSouth acknowledges that approval of its proposed tariff would generate an increase in its revenues based on the present demand of in-service quantities.⁵ Accordingly, the price component of the revenue equation must be increasing. In other words, in the accounting equation $P \times Q = R$, the price (P) must increase if, as BellSouth asserts in this case, revenues (R) would increase based on the assumption that quantities (Q) remain unchanged.

BellSouth's position that its proposed regrouping is not subject to price regulation because the tariff does not "adjust" or "increase" rates is incomprehensible. The solid fact of this case, as demonstrated through BellSouth's own filings, is that approval of the proposed tariff would cause consumers to dig deeper into their pockets and pay millions more to BellSouth for the purchase of basic local telephone services. BellSouth's attempt to characterize the situation as a clerical "correction" of rates or the application of a "different (but current) rate"⁶ rather than an increase in rates flies in the face of common sense and practical business concepts.

If BellSouth has its way, basic telephone rates are going up for thousands of Tennesseans. BellSouth's ability to increase these rates, however, is limited by law, particularly Tenn. Code Ann. § 65-5-209, which must govern here.

⁴ See also BellSouth's January 30, 2004 Response to TRA Staff's January 27, 2004 Data Request, Docket No. 04-00015, Item No. 4, attached hereto as **EXHIBIT 5**.

⁵ See Consumer Advocate and Protection Division's Statement of Undisputed Material Facts at ¶¶ 5-6.

⁶ See BellSouth Telecommunications, Inc.'s Response to Complaint of Consumer Advocate Division Regarding Regrouping, Docket No. 04-00015, pp. 2-3 (Feb. 6, 2004).

B. BELLSOUTH HAS ELECTED THE PRICE REGULATION METHODOLOGY ESTABLISHED IN TENN. CODE ANN. § 65-5-209 FOR REGULATION OF ITS RATES AND THE TRA WOULD EXCEED ITS STATUTORY AUTHORITY BY APPROVING ANY UNAUTHORIZED CHANGE IN BELLSOUTH'S RATES.

BellSouth is a company whose telephone rates and charges are regulated pursuant to the price regulation requirements of Tenn. Code Ann. § 65-5-209, and the clear and unequivocal language of this statute, as well as the case law discussing and interpreting section 209, require its application to the circumstances presented here.

In 1995, the General Assembly passed Public Chapter 408, the Telecommunication Reform Act of 1995, which is now codified in Title 65. "The passage of chapter 408 has truly reformed the provision and the regulation of local telecommunications services Instead of the traditional rate of return method, incumbents . . . may elect to have their rates regulated through a price regulation plan." *AT&T Comm., Inc. v. Greer*, 1996 WL 697945 at *3 (Tenn. Ct. App. 1996) (citing Tenn. Code Ann. §§ 65-5-208 and 65-5-209).⁷ It is undisputed that BellSouth has made such an election pursuant to Tenn. Code Ann. § 65-5-209 and is now a price-regulated incumbent local exchange telephone company. *See Order Approving BellSouth Telecommunications, Inc.'s Application for Price Regulation Plan*, Docket No. 95-02614 (Tenn. Reg. Auth. Dec. 9, 1998).

The General Assembly intended that the procedures set forth in Tenn. Code Ann. § 65-5-209 be utilized to establish and maintain affordable rates for customers of price-regulated companies.

⁷ *See also United Telephone-Southeast, Inc. v Tennessee Regulatory Auth.*, 2001 WL 266051 at *1 (Tenn. Ct. App. 2001) ("In 1995, the General Assembly enacted sweeping changes in the regulation of the providers of telecommunications services in Tennessee. Among the changes was the creation of a new method of rate setting as an alternative to the existing 'rate of return' regulation by the TRA. Under the new legislation, a provider of telecommunications services could elect a new alternative 'price regulation plan' methodology.") (citing Tenn. Code Ann. § 65-5-209).

Thus, subsection 209(a) requires that initial, affordable rates be established by utilizing only the procedures set forth in subsection 209(c). *See BellSouth Telecomm., Inc. v. Greer*, 972 S.W.2d 663, 674-675 (Tenn. Ct. App. 1997) (“Since Tenn. Code Ann. § 65-5-209(a) directs the [TRA] to set an incumbent local telephone company’s initial rates ‘using the procedures established in this section,’ the statute is the sole source of the [TRA’s] authority to adopt a price regulation plan.”)

Likewise, subsection 209(b) directs that a price-regulated company “shall charge and collect only such rates that are less than or equal to the maximum permitted by this section”. The maximum rates permitted by Tenn. Code Ann. § 65-5-209 are determined by subsections 209(e)-(g). *See Consumer Advocate Div. v. Tennessee Regulatory Auth.*, 2000 WL 1514324 at * 1-2 (Tenn. Ct. App. 2000) (“Once a company enters price regulation under the statutory scheme, T.C.A. § 65-5-209(e)-(g) govern the amount by which the company is permitted to change its rates.”)⁸

It is clear that the General Assembly prescribed these section 209 procedures in order to ensure that telephone rates remain affordable under the price-regulation alternative that it created. *See* Tenn. Code Ann. § 65-5-209(e) (Supp. 2003) (“A price regulation plan shall maintain affordable basic and non-basic rates by permitting a maximum annual adjustment”). In addition to the general price cap measures prescribed in subsection 209(e), the General Assembly sought to further ensure the affordability of residential essential telephone services under the price regulation plan methodology. Subsection 209(f) accomplishes this goal by its “prohibition against cumulative rate

⁸ *See also United Telephone-Southeast*, 2001 WL 266051 at *1 (“After the initial qualification for a price regulation plan, a provider’s ability to increase rates for services is subject to limitations established by statute A provider’s rate changes are limited by an overall maximum annual adjustment.”) (*citing* Tenn. Code Ann. § 65-5-209).

changes” for basic residential telephone services in any one year that outpace the national inflation rate. *See Consumer Advocate Div*, 2000 WL 1514324 at *4 (*citing* Tenn. Code Ann. § 65-5-209(f)).⁹ Accordingly, while price regulation is designed to give the price-regulated company more flexibility with regard to adjustment of its rates, that flexibility is limited with regard to basic services. *See United Telephone-Southeast*, 2001 WL 266051 at *1 (*citing* Tenn. Code Ann. § 65-5-209(f)).

Thus, the General Assembly’s enactment of the Telecommunication Reform Act of 1995 created price regulation as a means of regulating telephone rates in lieu of traditional forms of rate regulation. Once BellSouth elected to have its rates governed by a price regulation plan, the slate was wiped clean and the company started anew under this alternative form of rate regulation. In order to ensure the State’s goal of maintaining reasonable and affordable telephone rates under price regulation, the General Assembly was careful to spell out in Tenn. Code Ann. § 65-5-209 the specific procedures that had to be applied when the TRA set the initial rates of BellSouth’s price regulation plan (*see* subsections 209(a) and 209(c)) as well as the procedures that must be applied when the TRA considers subsequent rate adjustments under that plan (*see* subsections 209(b) and 209(e)-(g)). Accordingly, the TRA is bound by the course that the General Assembly has set, and unauthorized deviations from this approach would frustrate the intent and purpose of Tenn. Code

⁹ *See also United Telephone-Southeast*, 2001 WL 266051 at *3, *5 (“We interpret the limitations on rate increases for basic services as fulfilling the goal of maintaining affordable rates for residential essential services . . . [and] are of the opinion that the General Assembly’s placing of stricter limitations on rate increases for basic services was . . . intended to ensure that the average customer could obtain telephone service at reasonable rates.”) (*citing* Tenn. Code Ann. § 65-5-209(f)).

Ann. § 65-5-209.¹⁰ These price regulation requirements, therefore, must be applied to this price-regulated company's request to charge its customers more money for basic telephone services.

C. BELLSOUTH'S PROPOSED REGROUPING PLAN VIOLATES THE PRICE REGULATION REQUIREMENTS OF TENN. CODE ANN. § 65-5-209.

If approved and allowed to become effective, BellSouth's proposed reclassification of rate groups would cause the rates for residential basic local exchange service to increase by more than the national inflation rate in violation of Tenn. Code Ann. § 65-5-209(f). In addition, BellSouth's refusal to account for new revenues generated from implementation of its proposed tariff in accordance with its price regulation plan would run afoul of Tenn. Code Ann. § 65-5-209(e).

Subsection 209(f) plainly and unequivocally states "that in no event shall the rate for residential basic local exchange telephone service be increased in any one (1) year by more than the percentage change in inflation for the United States using the gross domestic product-price index (GDP-PI) from the preceding year as the measure of inflation." The relevant GDP-PI in this case is 1.6%.¹¹ However, in direct contravention of the statute, BellSouth's proposed regrouping plan would cause an increase of more than 1.6% in the amount paid for residential basic local exchange telephone service. In particular, the residential customers affected by the regrouping would

¹⁰ The TRA must conform its actions to its enabling legislation and has no authority or power except that found in statutes. *See BellSouth Telecomm.*, 972 S.W.2d at 680. Because Tenn. Code Ann. § 65-5-209 is the controlling statutory authority for setting and changing rates under price regulation, the TRA would exceed its authority under section 209 if it approved any change in BellSouth's rates that conflicts with the plain language of this statute or the company's price regulation plan adopted pursuant to this statute. *See Id*

¹¹ *See Consumer Advocate and Protection Division's Statement of Undisputed Material Facts* at ¶ 4.

experience rate hikes in the range of 2.6% to 19.8% over the amounts that they currently pay for residential basic local exchange telephone service.¹²

Thus, the regrouping proposal outlined in BellSouth's proposed tariff is such an "event" where the rate for residential basic local exchange telephone service would be increased in any one year by more than the percentage change in inflation using the GDP-PI from the preceding year as the measure of inflation. Accordingly, this tariff proposal violates Tenn. Code Ann. § 65-5-209(f) and, therefore, should be denied.

In addition, BellSouth's regrouping plan would run afoul of Tenn. Code Ann. § 65-5-209(e), which provides that the aggregate revenues generated by any proposed changes in basic telephone rates must not exceed the maximum rates permitted by BellSouth's price regulation plan. *See* Tenn. Code Ann. § 65-5-209(e) (Supp. 2003). It is undisputed that BellSouth would experience at least an estimated \$1,970,019 annual revenue increase attributable to the proposed reclassification of rate groups for residential customers, and an estimated \$154,475 annual revenue decrease attributable to the proposed reclassification of rate groups for business and all other non-residential customers.¹³ It is also undisputed that BellSouth will not offset these annual revenue adjustments against existing headroom per BellSouth's price regulation plan.¹⁴ BellSouth's failure to account for this net increase

¹² *See Consumer Advocate and Protection Division's Statement of Undisputed Material Facts* at ¶ 3.

¹³ *See Consumer Advocate and Protection Division's Statement of Undisputed Material Facts* at ¶¶ 5-6.

¹⁴ *See Consumer Advocate and Protection Division's Statement of Undisputed Material Facts* at ¶ 7.

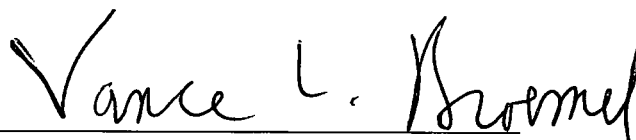
in annual revenues resulting from its regrouping proposal in accordance with its price regulation plan would violate Tenn. Code Ann. § 65-5-209(e)'s requirement for such accounting treatment of revenues. Therefore, BellSouth's tariff should be denied.

V. CONCLUSION

Based on the foregoing, the Consumer Advocate respectfully submits that it is entitled to judgment as a matter of law. The Consumer Advocate therefore requests that the TRA enter an order granting the *Consumer Advocate and Protection Division's Motion for Summary Judgment* and denying BellSouth's Tariff No. 2004-0055.

RESPECTFULLY SUBMITTED,

PAUL G. SUMMERS, B.P.R. #6285
Attorney General
State of Tennessee



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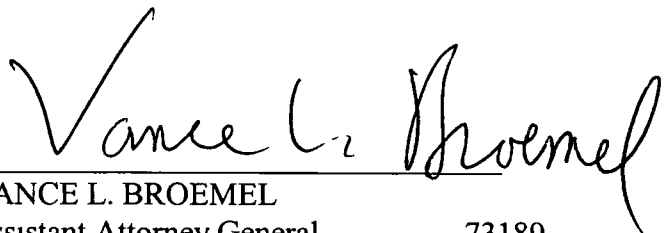
Dated: March 2, 2004

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via facsimile or first-class U.S. Mail, postage prepaid, on March 2, 2004, upon:

Guy M. Hicks, Esq.
BellSouth Telecommunications, Inc.
333 Commerce Street, Suite 2101
Nashville, Tennessee 37201-3300
Facsimile: 615-214-7406

James B. Wright, Esq.
United Telephone-Southeast, Inc.
14111 Capital Boulevard
Wake Forest, North Carolina 27587-5900
Facsimile: 919-554-7913



VANCE L. BROEMEL
Assistant Attorney General

73189

RATE GROUP TRACKING REPORT
TENNESSEE

MONTH DECEMBER
YEAR 2002

EXCHANGE LOCAL CALLING AREA	TARIFF RG	PROP RG	RG LOWER LIMIT	LINES WITHIN EXCH	LOCAL LINES (BSI)	LOCAL LINES (CONN)	TOTAL LOCAL LINES	RG UPPER LIMIT	% OF UPPER LIMIT	NUMBER MONTHS OVER
ATHENS	2	3	12001					27000		
BOLIVAR	1	2	0					12000		
BETHEL SPRINGS	1	2	0					12000		
CHATTANOOGA, TN	4	5	85001					300000		
COLUMBIA	2	3	12001					27000		
COPPER BASIN	1	2	0					12000		
CULLEOKA	2	3	12001					27000		
DYER	2	3	12001					27000		
ELKTON	1	2	0					12000		
ETOWAH	2	3	12001					27000		
FLINTVILLE	1	2	0					12000		
FAYETTEVILLE	1	2	0					12000		
GIBSON	2	3	12001					27000		
GRAND JUNCTION	1	2	0					12000		
GLEASON	1	2	0					12000		
GREENFIELD	1	2	0					12000		
GREENBACK	4	5	85001					300000		
HUMBOLDT	2	3	12001					27000		
HAMPSHIRE	2	3	12001					27000		
HUNTLAND	1	2	0					12000		
HORNBEAK	1	2	0					12000		
KNOXVILLE	4	5	85001					300000		
LEWISBURG	1	2	0					12000		
LEXINGTON	1	2	0					12000		
LYNNVILLE	1	2	0					12000		
MCKENZIE	1	2	0					12000		
MIDDLETON	1	2	0					12000		
MADISONVILLE	1	2	0					12000		
MEDINA	2	3	12001					27000		
MILAN	2	3	12001					27000		
MANCHESTER	2	3	12001					27000		
MT PLEASANT	2	3	12001					27000		

Redacted for
Proprietary Information

Redacted for
Proprietary Information

EXHIBIT

1

ISSUED January 7, 2004
BY President - Tennessee
Nashville, Tennessee

EFFECTIVE February 6, 2004

A3. BASIC LOCAL EXCHANGE SERVICE

A3.7 Monthly Exchange Rates

A3.7.1 Flat Rate Service

- A. The rates specified herein, with zone mileage charges when applicable to service furnished outside the base rate area of an exchange, entitle subscribers to an unlimited number of messages to all station lines bearing the designation of central offices within the serving exchange and additional exchanges as shown in A3 6 , Local Calling Areas, of this Tariff

1 Exchange

Adams-Cedar Hill

		Residence	Business	USOC
	(a) R G 5	\$12.34	\$39.70	NA
Arlington				
	(a) R. G 5	12.34	39.70	NA
Ashland City				
	(a) R G 5	12.34	39.70	NA
Athens				
	(a) R G 2	8.62	30.80	NA
Bean Station				
	(a) R G 4	12.03	39.05	NA
Bells				
	(a) R. G 1	7.67	27.05	NA
Bent Creek				
	(a) R G 4	12.03	39.05	NA
Benton				
	(a) R. G 3	9.19	32.75	NA
Bethel Springs				
	(a) R G 1	7.67	27.05	NA
Big Sandy				
	(a) R G 2C	10.10	31.75	NA
Blanche				
	(a) R G 2	8.62	30.80	NA

Note 1: Exception Rate

EXHIBIT

2

EFFECTIVE. February 20, 2004

A3. BASIC LOCAL EXCHANGE SERVICE

A3.7 Monthly Exchange Rates

A3.7.1 Flat Rate Service

- A. The rates specified herein, with zone mileage charges when applicable to service furnished outside the base rate area of an exchange, entitle subscribers to an unlimited number of messages to all station lines bearing the designation of central offices within the serving exchange and additional exchanges as shown in A3 6., Local Calling Areas, of this Tariff

1. Exchange

Adams-Cedar Hill

		Residence	Business	USOC
		\$12.34	\$39.70	NA
(a)	R. G. 5			
Arlington		12.34	39.70	NA
(a)	R. G. 5			
Ashland City		12.34	39.70	NA
(a)	R. G. 5			
Athens		9.19	32.75	NA
(a)	R. G. 3			
Bean Station		12.03	39.05	NA
(a)	R. G. 4			
Bells		7.67	27.05	NA
(a)	R. G. 1			
Bent Creek		12.03	39.05	NA
(a)	R. G. 4			
Benton		9.19	32.75	NA
(a)	R. G. 3			
Bethel Springs		8.62	30.80	NA
(a)	R. G. 2			
Big Sandy ¹		10.10	31.75	NA
(a)	R. G. 2C			
Blanche		8.62	30.80	NA
(a)	R. G. 2			

Note 1: Exception Rate

(C)

(C)

EXHIBIT

3

State Tennessee	Present and Proposed Rates and Revenues	Develop Date
Annual Priceout Data	A3 LOCL. EXCHANGE	Page 1 of 231
Regrouping by Exchange with Res 1 6% Increases		Run Date 01/20/04

RECURRING RATES

Tariff Section/ Page # (1)	Service Description (2)	Present In-Service (3)	Proposed In-Service (4)	Old Zone Rate (5)	New Zone Rate (6)	\$ Change (7)	% Change (8)	Present Annual Revenue (9)	Proposed Annual Revenue (10)	Annual Revenue Change (11)	Svc I.D. (12)
ATHENS											
A3/1 1	RES 1-PARTY FLAT	02 TO 03		\$8 50	\$9 19	\$0 69	8.12%				1001
A3/15	RES FLAT ISDN, M TO M			\$22 35	\$23 04	\$0 69	3.09%				2076
A3/59	RES TRK FLAT			\$14 88	\$16 09	\$1 21	8.13%				1001
A3/59	RES TRK MEAS			\$5 95	\$6 35	\$0 40	6.72%				1002
A3/4	RES STD MEAS			\$4 25	\$4 62	\$0 37	8.71%				1002
A3/2	RES STD MEAS			\$5 95	\$6 45	\$0 50	8.40%				1002
A3/2	RES LOW USE MEAS			\$3 40	\$3 65	\$0 25	7.35%				1002
A42/15	RES MEAS ISDN			\$18 35	\$18 35	\$0 00	0.00%				1002
A3/5 0 2	RES PLAN LINE W/DISC			\$5 50	\$5 50	\$0 00	0.00%				2076
A3/59 1	RES PLAN LINE			\$4 50	\$4 50	\$0 00	0.00%				2169
A3/59 1	RES PLAN TRK W/DISC			\$5 50	\$5 50	\$0 00	0.00%				2169
A3/59 1	RES PLAN TRK			\$4 50	\$4 50	\$0 00	0.00%				2169
A3/59	RES PLAN HTG			\$3 38	\$3 38	\$0 00	0.00%				2169
A3/1 1	BUS 1-PARTY FLAT			\$30 80	\$32 75	\$1 95	6.33%				2169
A3/58 1	BUS FLAT HTG			\$23 10	\$24 56	\$1 46	6.32%				1003
A3/58 1	BUS FLAT HTG-NAR			\$22 50	\$22 50	\$0 00	0.00%				2105
A3/4 1	BUS STD MEAS			\$23 95	\$23 95	\$0 00	0.00%				1003
A3/58 1	BUS STD MEAS			\$17 96	\$17 96	\$0 00	0.00%				2105
A3/2	BUS MEAS HTG			\$21 55	\$22 95	\$1 40	6.50%				1003
A3/58 1	BUS MEAS HTG			\$17 96	\$17 96	\$0 00	0.00%				2105
A3/5 0 2	BUS PLAN LINE W/DISC			\$25 50	\$25 50	\$0 00	0.00%				2169
A3/5 0 2	BUS PLAN LINE			\$24 50	\$24 50	\$0 00	0.00%				2169
A3/59	BUS PLAN HTG			\$18 38	\$18 38	\$0 00	0.00%				2169
A3/79	BUS BACK-UP LINE			\$61 00	\$61 00	\$0 00	0.00%				2094
A3/85	BUS COMPLETE CHOICE 1-LN			\$113 00	\$113 00	\$0 00	0.00%				2221
A3/85	BUS COMPLETE CHOICE 2-LN			\$196 00	\$196 00	\$0 00	0.00%				2221
A3/85	BUS COMPLETE CHOICE 3-LN			\$62 00	\$62 00	\$0 00	0.00%				2221
A3/85	BUS COMPLETE CHOICE 1-LN OPT 2			\$114 00	\$114 00	\$0 00	0.00%				2221
A3/85	BUS COMPLETE CHOICE 2-LN OPT 2			\$197 00	\$197 00	\$0 00	0.00%				2221
A3/85	BUS COMPLETE CHOICE 3-LN OPT 2			\$259 00	\$259 00	\$0 00	0.00%				2221

Redacted for
Proprietary Information

Redacted for
Proprietary Information

Private/Proprietary No disclosure outside BILLSOUTH except under written agreement

EXHIBIT

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REQUEST: If this tariff is approved, some residential customers will pay more for basic local exchange access lines. Please identify how much more residential consumers will pay for basic local exchange access lines, both as an amount and a percentage. Please provide this information for each exchange being regrouped.

RESPONSE: The existing A3 rate group tariff defines the rate group size and contains the current rates for each rate group. These definitions and rates are not changing. For exchanges being reclassified from rate group 4 to 5, which are the bulk of the affected customers, Residential 1 party flat rate service will increase by \$.30, a 2.53% increase. For those exchanges that are appropriately being reclassified from rate group 1 to 2, the monthly rates will change as follows: Residential 1 party Flat Rate service will increase by \$.95, a 12.58% increase. Residential 1 party Flat Rate service in exchanges being reclassified from rate group 2 to 3 will increase by \$.55, a 6.47% increase. There are no exchanges being reclassified from rate group 3 to 4 in this tariff. There is one exchange being reclassified from rate group 1 to 3 which will increase by \$1.50, a 19.87% increase. Most residential customers have Residential 1 party Flat Rate service. All other residential classes of service included in the regrouping can be viewed in the pending tariff.

